Report

of the

Examination of

Dupont Mutual Insurance Company

Marion, Wisconsin

As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 27, 2005

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2004, of the affairs and financial condition of:

DUPONT MUTUAL INSURANCE COMPANY
Marion, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Dupont Mutual Insurance Company (the company) was made in 2000 as of December 31, 1999. The current examination covered the intervening time period ending December 31, 2004, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on July 24, 1883, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Dupont Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. Articles were amended in 2000 to add Fond du Lac, Green Lake and Calumet counties to the company's territory.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties:

Brown	Calumet
Fond du Lac	Forest
Green Lake	Langlade
Marathon	Outagamie
Portage	Shawano
Waupaca	Waushara
Winnebago	

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company also charges a policy fee equal to $25 for each policy and $5 for each installment payment.

Business of the company is acquired through 93 agents, one of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
New Business	18%
Renewal Business	13%

Agents have no authority to adjust losses. The company's adjuster has authority to adjust losses up to $2,500. Losses in excess of this amount are reviewed by the adjusting committee and require the approval of one director, who signs the proof of loss and the check. If it becomes necessary to bring a claim before the adjusting committee and that claim is on a policy written by an agent who serves as a director of the company and as a member of the adjusting committee, that agent/director will be excused from the claims meeting during such time as the applicable claim is being reviewed. The agent/director will abstain from voting on any action regarding a motion/resolution concerning the claim and/or its settlement. The company's adjuster receives an annual salary plus $.405 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Raymond Arndt	Retired	Marion, WI	2007
Kelly Zillmer	Assessor	Marion, WI	2007
James Jueds	Plant Manager	Marion, WI	2006
Warren Hanson	Farmer	Clintonville, WI	2008
Daniel Madden	Retired	New London, WI	2008
Michael White*	Insurance Agent	Birnamwood, WI	2006
Orwin Draeger	Bank Manager	Scandinavia, WI	2008

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $60.00 for each meeting attended and $.405 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2004 Salary
Raymond Arndt	President	$1,153
Kelly Zillmer	Vice President	880
James Jueds	Secretary/Treasurer	825

2004 Salary includes both salary and travel expenses.

Salaries

The following individuals receive management salaries:

Name	Office	2004 Salary
Thomas Mielke	Manager	$42,480

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of examination are listed below:

Investment Committee
Thomas Mielke (Company Mgr), Chair
Raymond Arndt
Kelly Zillmer
James Jueds
Michael White

Claims Adjusting Committee
Entire Board is appointed.
Raymond Arndt, Chair

The board of directors was appointed as the adjusting committee in 2000, 2001 and 2003. See summary of examination results for further discussion.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2004	$874,441	3,628	$ 61,973	$2,113,363	$1,207,024
2003	797,561	3,519	121,891	1,789,698	953,273
2002	755,027	3,440	55,071	1,576,252	816,909
2001	663,771	3,221	(37,644)	1,514,666	890,187
2000	701,409	3,124	92,435	1,644,727	988,031
1999	657,693	3,167	79,953	1,528,380	918,373

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Net	Writings Ratios Gross
2004	$1,774,104	$924,810	$1,207,024	77%	147%
2003	1,600,719	820,893	953,273	86	168
2002	1,483,794	838,932	816,909	103	182
2001	1,323,441	672,915	890,187	76	149
2000	1,278,169	714,802	988,031	72	129
1999	1,266,522	677,996	918,373	74	138

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Com-posite Ratio
2004	$566,820	$336,562	$874,441	65%	36%	101%
2003	441,237	308,163	797,561	55	38	93
2002	495,547	302,481	755,027	66	36	102
2001	549,692	281,768	663,771	83	42	125
2000	458,578	283,236	701,409	65	40	105
1999	429,263	270,438	657,693	65	40	105

In 2000, the company expanded its territory to include Fond du Lac, Green Lake and Calumet counties. The company produced net income in all years since the last exam except 2001. Over the past five years, surplus increased by 31.4% from $918,373 in 1999 to $1,207,024 in 2004. Admitted assets increased by 38.3% over the same period. Net premiums written fluctuated over the five years but have increased 36.4%, while policies in-force increased 14.6% since the last exam. The composite ratio fluctuated over the five-year period, but has shown some improvement in recent years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2005, continuous
Termination provisions:	Either party may terminate the contract on any January 1 by giving 90 days advance notice to the other party.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss
	Lines reinsured:	All liability (nonproperty) business
	Company's retention:	$2,500 in respect to each and every loss occurrence, plus a $1,000 deductible where raw milk contamination occurs on an insured dairy farm that does not have evidence of completion of the Dairy Quality Assurance Program within 12 months of the loss, regardless of whether the deductible is applied to the direct loss.
	Coverage:	100% of each and every loss occurring on the business covered by this Exhibit, in excess of the company's net retention, subject to the maximum policy limits below: a. $1,000,000 per occurrence, single limit of combined for bodily injury and property damage liability. b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	68% of the premium written for each and every policy issued by the company.
	Ceding commission:	None
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	When the company's net retention is $300,000 or more in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to $800,000. When the company's net retention is $300,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to

		accept up to 50% of such risk. The company shall retain, as an Annual Aggregate Deductible, an amount equal to 10% of the loss and loss adjusting expenses otherwise recoverable.
	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded.
	Reinsurance premium:	The pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of each risk ceded.
	Ceding commission:	15% of the premium paid
	Profit commission:	15% of the net profit calculated as follows: a) Premiums earned for the period; less b) Ceding commission allowed the company on premiums earned for the period; less c) 10% of premiums earned for the period to cover incurred expenses; less d) Losses and LAE incurred for the period; less the reinsurer's net loss, if any, from the preceding period.
3.	Type of contract:	Class B Combination Excess of Loss and Quota Share
	Lines reinsured:	All property business
	Company's retention:	<u>Part I – Excess of Loss</u> The company retains $25,000 in respect to each and every risk, every loss occurrence. The company shall retain, as an Annual Aggregate Deductible, an amount equal to $25,000 of the loss otherwise recoverable. <u>Part II – Quota Share</u> The company retains $25,000 in respect to each loss each risk. The company shall retain, as an Annual Aggregate Deductible, an amount equal to 10% of the loss and loss adjusting expenses otherwise recoverable.
	Coverage:	<u>Part I – Excess of Loss</u> 100% of any loss, excluding loss adjusting expenses, in excess of $25,000 in respect to each and every risk, every loss occurrence. The reinsurer's limit of liability shall be $75,000 in respect to each and every risk, each and every loss occurrence. <u>Part II – Quota Share</u> The reinsurer is liable for 10% for each and every loss, including applicable loss adjustment expenses, on business covered hereunder, which remains after recoveries, if any under Part I – Excess of Loss above.

		The reinsurer's limit of liability shall be $2,500 being 10% of $25,000 as respects each loss, each risk.
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the four years' losses incurred by the reinsurer under Part I – Excess of Loss (paid plus outstanding) divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths plus the quota share recovery rate. The minimum rate for Part I – Excess of Loss shall be 7%. The current rate for both Parts I and II is 30% of the net premiums written in respect to the business covered.
	Ceding commission:	25% standard slide with minimum and maximum rates of 25% and 45% The current rate is 25%.
4.	Type of contract:	Class C-2 Excess of Loss – Second Layer
	Lines reinsured:	All property business
	Company's retention:	$100,000 per loss occurrence.
	Coverage:	100% of any loss, including LAE in excess of $10,000 in respect to each and every risk resulting from one loss occurrence. Reinsurers limit is $200,000 in respect to each and every loss occurrence.
	Reinsurance premium:	2.75% of current net premium written; minimum premium of $20,000.
5.	Type of contract:	Class D/E Stop Loss
	Lines reinsured:	All business written by the company
	Company's retention:	The company shall retain net of its own account an amount of losses (including loss adjustment expenses) equal to not less than 65% of the company's net premium written, subject to a minimum net retention of $500,000.
	Coverage:	100% of the amount, if any, by which the aggregate of the company's losses (including loss adjustment expenses) which occur during any annual period exceed an amount equal to 65% of the company's net premiums written.
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the eight years' losses incurred (paid plus outstanding) by the reinsurer divided by the total of the net premiums written for the same period multiplied by the factor 100/80ths. Subject to a minimum rate of 6.0% and a maximum rate of 25% of current net written premiums. The rate for the current annual period is 8.7%. Minimum premium for the current year is $70,000,

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Dupont Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2004

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 25	$	$	$ 25
Cash deposited in checking account	17,434			17,434
Cash deposited at interest	1,102,261			1,102,261
Bonds	30,000			30,000
Stocks and mutual fund investments	597,189			597,189
Real estate	58,831			58,831
Premiums, agents' balances and installments:				
In course of collection	26,380			26,380
Deferred and not yet due	262,680			262,680
Investment income accrued		5,725		5,725
Reinsurance recoverable on paid losses and lae	471			471
Electronic data processing equipment	10,209			10,209
Other expense-related assets:				
Payroll taxes recoverable	2,158			2,158
Furniture and fixtures	7,488		7,488	
Other nonadmitted assets:				
Prepaid expenses		8,732	8,732	
Totals	$2,115,126	$14,457	$16,220	$2,113,363

Liabilities and Surplus

Net unpaid losses	$ 102,819
Unpaid loss adjustment expenses	768
Commissions payable	48,021
Fire department dues payable	869
Federal income taxes payable	3,227
Unearned premiums	632,884
Reinsurance payable	89,722
Other liabilities:	
Expense-related:	
Accounts payable	1,288
Accrued property tax	3,442
Nonexpense-related:	
Premiums received in advance	23,299
Total Liabilities	906,339
Policyholders' surplus	1,207,024
Total Liabilities and Surplus	$2,113,363

Dupont Mutual Insurance Company
Statement of Operations
For the Year 2004

Net premiums and assessments earned		$874,441
Deduct:		
Net losses incurred	$478,956	
Net loss adjustment expenses incurred	87,864	
Other underwriting expenses incurred	336,562	
Total losses and expenses incurred		903,382
Net underwriting gain (loss)		(28,941)
Net investment income:		
Net investment income earned	12,003	
Net realized capital gains	(11,633)	
Total investment gain (loss)		370
Other income (expense):		
Installment and policy fees		117,188
Net income (loss) before federal income taxes		88,617
Federal income taxes incurred		26,644
Net Income (Loss)		$ 61,973

Dupont Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	$ 953,273	$816,909	$ 890,187	$988,031	$918,373
Net income	61,973	121,891	55,071	(37,644)	92,435
Net unrealized capital gains or (losses)	192,764	14,403	(124,926)	(59,973)	(21,574)
Change in nonadmitted assets	(986)	70	(3,423)	(227)	(1,203)
Surplus, end of year	$1,207,024	$953,273	$ 816,909	$890,187	$988,031

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2004, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Underwriting—It is recommended that the company discontinue the practice of using two separate rate books for premium or submit a reasonable plan to come into compliance with s. 628.34 (3) (a), Wis. Stat.

   Action—Compliance.

2. Claims Adjusting—It is again recommended that the board of directors annually appoint the claims adjusting committee pursuant to s. 612.13 (4), Wis. Stat.

   Action—Partial compliance, see comments in the summary of current examination results.

3. Accounts and Records—It is recommended that the company comply with their check-signing procedures.

   Action—Compliance.

4. EDP Environment—It is recommended that the company print and retain a copy of the In Force Premium Report and any other financial records reasonably related to insurance operations at year-end for all years since the last OCI examination, pursuant to s. Ins 6.80, Wis. Adm. Code.

   Action—Noncompliance, see comments in the summary of current examination results.

5. Disaster Recovery Plan—It is recommended that the company develop a formal written disaster recovery plan.

   Action—Noncompliance, see comments in the summary of current examination results.

6. Invested Assets—It is recommended that the company revise its certificates of deposit to identify the insurer as the sole owner and hold its investments in the company name only per s. 610.23, Wis. Stat.

   Action—Noncompliance, see comments in the summary of current examination results.

7. Transition into the New Investment Rule—It is recommended that the company submit a written investment plan in compliance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

   Action—Compliance.

8. Transition into the New Investment Rule—It is again recommended that the company comply with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted. One of the directors is an agent for other insurance companies. It was noted on the director’s conflict of interest statement.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 100,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	300,000
Combined professional and D&O liability	1,000,000
Errors and omissions	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses. The entire board is appointed to the claims adjusting committee. Claims are discussed at regular board meetings and are included in the regular minutes.

As a result of the prior examination it was recommended that the board annually appoint an adjusting committee. The board complied in three of the five years but did not appoint the committee in 2002 and 2004. It is again recommended that the board of directors annually appoint the claims adjusting committee pursuant to s. 612.13 (4), Wis. Stat.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained

4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2004.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

As a result of the prior examination it was recommended that the company print or retain records reasonably related to insurance operations at year-end, including, but not limited to, Premium In Force report (including unearned premium), as required in s. Ins 6.80, Wis. Adm. Code. The company was unable to produce a paper or electronic copy of "Unearned Premium Report" based on billing amounts in detail. The company used this report to determine deferred installments at year-end. Section Ins 6.80, Wis. Adm. Code, requires the company to retain records of its operations and other financial records reasonably related to insurance operations since the last examination by this office. If the company had retained its year-end backed-up data, it would have been possible to recreate these reports. It is again recommended that the company retain a paper or electronic copy of "Unearned Premium Report" based on billing amounts and any other financial records reasonably related to insurance operations at year-end for all years since the last OCI examination, pursuant to s. Ins 6.80, Wis. Adm. Code.

The company has a manual which describes how to use the company's software and outlines the steps to complete specific tasks to assist in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The examination determined that the level of documentation contained in this manual was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has not developed a business continuity plan as recommended in the prior examination. It is again recommended that the company develop an adequate business continuity plan and file such with this office within 180 days of the adoption of this report.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is not in compliance with these requirements. The company has five certificates of deposit that are listed as being jointly owned by Dupont Mutual Insurance, the secretary/treasurer, and/or the president, manager and assistant secretary. According to the language on the certificates of deposit, “any one of said Account Owners may authorize any withdrawal, transfer, or pledge of this account.” Therefore, it appears that any of the individuals could withdraw or transfer the certificate balances for their own use. During the exam, this issue was addressed and remedied by the company.

It is again recommended that the company revise its certificates of deposit to identify the insurer as the sole owner and hold its investments in the company name only, pursuant to

s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$1,206,339
2.	Liabilities plus 33% of gross premiums written	1,491,793
3.	Liabilities plus 50% of net premiums written	1,368,744
4.	Amount required (greater of 1, 2, or 3)	1,491,793
5.	Amount of Type 1 investments as of 12/31/2004	1,169,695
6.	Excess or (deficiency)	$ (322,098)

The company does not have sufficient Type 1 investments.

The company was granted an exception on March 15, 2002, by OCI to hold up to 35% of admitted assets in common stocks, preferred stocks and mutual funds, with the requirement that the company should invest all proceeds including dividends from its Type 2 investments into Type 1 investments until the company becomes Type 1 sufficient.

ASSETS

Cash and Invested Cash **$1,119,720**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 25
Cash deposited in banks-checking accounts	17,434
Cash deposited in banks at interest	1,102,261
Total	$1,119,720

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 27 deposits in 13 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2004 totaled $18,431 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.80% to 3.29%. Accrued interest on cash deposits totaled $4,396 at year-end.

Book Value of Bonds **$30,000**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2004. Bonds owned by the company are located in its fireproof vault.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

No interest was received on bonds during 2004 as all bonds owned were Series I savings bonds. Accrued interest of $1,329 at December 31, 2004, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$597,189**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2004. Stocks owned by the company are located in its fireproof vault.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2004 on stocks and mutual funds amounted to $4,772 and were traced to cash receipts records. The company had no accrued dividends at December 31, 2004.

Book Value of Real Estate **$58,831**

The above amount represents the company's investment in real estate as of December 31, 2004. Real estate holdings consist of the company's office building in Marion.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$26,380**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset with the following exception.

During the review of premiums in course of collection, it was noted that the company had included $241 in premiums receivable greater than 90 days. Per the Town Mutual Annual Statement Instructions, balances greater than 90 days should be considered a nonadmitted asset. It is recommended that the company nonadmit receivables greater than 90 days in accordance with the Town Mutual Annual Statement Instructions.

Premiums Deferred and Not Yet Due **$262,680**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$5,725**

Interest due and accrued on the various assets of the company at December 31, 2004, consists of the following:

Cash at Interest	$4,396
Bonds	1,329
Total	$5,725

Reinsurance Recoverable on Paid Losses and LAE **$471**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2004. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$10,209**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2004. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted. During the review of the company's EDP equipment depreciation calculation, the examiners noted that EDP equipment is being depreciated on a five-year basis. Pursuant to s. 601.42 (3), Wis. Stat., EDP equipment shall be depreciated over three years or the useful life, whichever is shorter. It is recommended that the company properly calculate depreciation on EDP equipment in accordance with s. 601.42 (3), Wis. Stat.

Furniture and Fixtures **$0**

This asset consists of $7,488 of furniture and fixtures owned by the company at December 31, 2004. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Payroll Taxes Recoverable **$2,158**

This asset represents an overpayment of payroll taxes by the company as of December 31, 2004. The examiner’s review determined this account balance to be correctly stated.

Prepaid Expenses **$0**

This asset represents $8,732 of prepaid expenses at December 31, 2004. It consists of prepaid insurance, forms and computer paper, postage left on postage meter and fire prevention inventory. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$102,819**

This liability represents losses incurred on or prior to December 31, 2004, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2004, with incurred dates in 2004 and prior years. To the actual paid loss figures was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$440,998	$423,474	$17,524
Less: Reinsurance recoverable on unpaid losses	338,179	323,407	14,772
Net Unpaid Losses	$102,819	$100,067	$ 2,752

The above difference of $2,752 was not considered material for purposes of this examination. Therefore, no adjustment to policyholders' surplus is necessary.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$768**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2004, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is $40 per open claim. The balance also included a small amount of miscellaneous expenses.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$48,021**

This liability represents the commissions payable to agents as of December 31, 2004. The examiners reviewed the company's commission calculation and found the liability to be adequately stated.

Fire Department Dues Payable **$869**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2004. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Federal Income Taxes Payable **$3,227**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2004. The examiners reviewed the company's 2004 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$632,884**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$89,722**

This liability consists of amounts due to the company's reinsurer at December 31, 2004, relating to transactions which occurred on or prior to that date. These amounts consist of the estimated payable amount at year-end based upon the reinsurer's adjusted calculations. Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Accounts Payable **$1,288**

This liability represents the balance payable at year-end for accounts payable and other accrued expenses incurred prior to December 31, 2004. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$3,442**

This liability represents the company's property taxes for the year ending December 31, 2004, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$23,299**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2004. The examiners reviewed 2004 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

The company reported assets of $2,113,363, liabilities of $906,339 and policyholders' surplus of $1,207,024 at year-end 2004, all of which are all-time high levels. Net premium written increased 36.4% to $924,810 over the previous five-year period. The company added Fond du Lac, Green Lake and Calumet counties to its territory in March 2000.

There were six recommendations as a result of this examination, four of which were repeated from the previous examination. Recommendations pertained mainly to recordkeeping and reporting requirements of the company, and are summarized in the subsequent section.

The company was Type 1 deficient by $322,098 at year-end 2004 and has been Type 1 deficient since the inception of the town mutual investment rule in 1996.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Claims Adjusting—It is again recommended that the board of directors annually appoint the claims adjusting committee pursuant to s. 612.13 (4), Wis. Stat.

2. Page 16 - EDP Environment—It is again recommended that the company retain a paper or electronic copy of "Unearned Premium Report" based on billing amounts and any other financial records reasonably related to insurance operations at year-end for all years since the last OCI examination, pursuant to s. Ins 6.80, Wis. Adm. Code.

3. Page 17 - Business Continuity Plan—It is again recommended that the company develop an adequate business continuity plan and file such with this office within 180 days of the adoption of this report.

4. Page 17 - Invested Assets—It is again recommended that the company revise its certificates of deposit to identify the insurer as the sole owner and hold its investments in the company name only, pursuant to s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

5. Page 21 - Premiums, Agents' Balances in Course of Collection —It is recommended that the company nonadmit receivables greater than 90 days in accordance with the Town Mutual Annual Statement Instructions.

6. Page 21 - EDP Equipment—It is recommended that the company properly calculate depreciation on EDP equipment in accordance with s. 601.42 (3), Wis. Stat.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Amy Wolff of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Stephen L Elmer
Examiner-in-Charge

VIII. SUBSEQUENT EVENTS

The company was granted an exception on March 15, 2002, by OCI to hold up to 35% of admitted assets in common stocks, preferred stocks and mutual funds, with the requirement that the company should invest all proceeds including dividends from its Type 2 investments into Type 1 investments until the company becomes Type 1 sufficient.

On March 20, 2006, the Office of the Commissioner of Insurance confirmed the company's exception to hold up to 35% of admitted assets in common stocks, preferred stocks and mutual funds. In this confirmation, the company was informed that it should take all measures consistent with prudent management of its investment portfolio, including, when appropriate, the sale and reinvestment of existing capital in Type 2 investments, but that no additional capital may be allocated to Type 2 investments until the company's Type 1 investment threshold is reached. Capital gains distributions and dividends are to be applied toward building up to the Type 1 investment requirement.